

VZCZCXRO3809  
PP RUEHCHI RUEHCN RUEHDT RUEHGH RUEHHM RUEHVC  
DE RUEHHK #0880 1340122  
ZNR UUUUU ZZH  
P 140122Z MAY 09  
FM AMCONSUL HONG KONG  
TO RUEHC/SECSTATE WASHDC PRIORITY 7606  
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS  
RUEHOO/CHINA POSTS COLLECTIVE  
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS HONG KONG 000880

SIPDIS

STATE FOR EAP/CM AND EEB/OMA

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [HK](#) [CH](#)

SUBJECT: HONG KONG AND MAINLAND EXPAND ECONOMIC PARTNERSHIP  
ARRANGEMENT

¶1. Summary and Comment: Government officials from Hong Kong and the PRC agreed on May 9 to accelerate the implementation of the sixth annual supplement to the Closer Economic Partnership Arrangement (CEPA). The latest supplementary agreement will take effect sooner than expected (on October 1) to help offset the effects of the global economic downturn. The PRC will liberalize investment and trade practices in 20 service sectors, with significant impact expected in the financial services and professional trades (e.g. law, medicine, accounting). Supplement VI will likely boost the flow of direct service sector investments by Hong Kong companies and individuals into the PRC. Such investments will provide an attractive growth opportunity for Hong Kong-based investors, while enhancing the skill sets and performance capabilities of the PRC's legal, medical and other service sector professionals. End summary and comment.

Expanding CEPA  
-----

¶2. The Hong Kong government (HKG) and the PRC on May 9 signed the sixth supplement to their CEPA. Since its initial implementation on January 1, 2004, the CEPA has liberalized trade, investment and the provision of services between Hong Kong and Mainland China (especially Guangdong Province). The CEPA has played a major role in building and accelerating the already significant economic ties between Hong Kong and the Mainland. According to the HKG's Trade and Industry Department, Hong Kong was the PRC's largest source of foreign direct investment (FDI) as of August 2008, accounting for almost 40 percent of the total. Meanwhile, the PRC remains Hong Kong's largest trading partner and source of FDI.

¶3. Under the sixth annual supplement to the CEPA, the PRC will introduce 29 liberalization measures covering 20 service sectors, including two new sectors (research and development, and rail transport). Supplement VI will take effect on October 1, 2009, three months ahead of the usual January 1 implementation date for the previous five CEPA supplements. The HKG cited the desire to accelerate the benefits of the new measures during the current economic downturn.

Financial Services and Professional Trades to Benefit  
-----

¶4. Supplement VI will enable Hong Kong-based banks to expand their operations in Guangdong Province. The banks' branches in Guangdong will be allowed to open "sub-branch" service locations anywhere in the province. Hong Kong securities companies will also be allowed to own up to one-third of joint venture securities investment advisory companies located in Guangdong. Mainland securities companies approved by China's Securities Regulatory Commission will be allowed to establish subsidiaries in Hong Kong. In addition, the PRC will lay the groundwork to allow Chinese residents to purchase index-tracking exchange-traded funds of Hong

Kong-listed stocks. This could significantly boost Mainlanders' financial investments in shares traded on the Hong Kong stock exchange.

15. The PRC agreed to liberalize the provision of legal services by allowing Hong Kong lawyers to practice law in the PRC. They must have at least five years' professional experience, pass the PRC State Judicial Exam, and undergo one month of additional training and a subsequent assessment by one of the Mainland's lawyer associations. Supplement VI also includes several measures to encourage technical exchanges and mutual recognition of other professional qualifications in sectors such as medicine, accounting, construction and real estate. Government officials and industry observers in Hong Kong believe these steps will raise the level of cross-border investments, especially into Guangdong Province, while boosting the technical competence and professional standards of Mainland professionals.

DONOVAN